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The Director of Central Intelligence
Washington, D.C. 20505

28 June 1988

National Intelligence Council

MEMORANDUM FOR: See Distribution
FROM: Charles E. Allen
National Intelligence Officer for Warning
SUBJECT: Monthly Warning Reports for May 1988

1. Summary of Key Warning Issues:

USSR

The struggle within the Soviet leadership over party leader Gorbachev's perestroika is reaching a critical stage as the June Communist Party conference begins. The Intelligence Community believes that the outcome remains in doubt. Gorbachev appears to have won the latest round in the exchange of polemics between Pravda and Soviet Russia this spring and he has resumed the offensive in arguing for radical reform, while conservative "Second Secretary" Ligachev's position has slipped. However, the conference may not have the authority to replace a significant part of the Central Committee--the core of the conservative opposition. The Community agrees that, given the magnitude of Ligachev's challenge, Gorbachev must clip his wings in the next few months to avert a serious political defeat; he must remove Ligachev from the sensitive "second secretary" position and transfer the key ideology and personnel Secretariat portfolios to his allies. CIA/SOVA believes Gorbachev's chances are good while the rest of the Community rates the outcome as a tossup.

This review reflects consideration of inputs generated at warning meetings conducted by the National Intelligence Officers with Community representatives from all areas. As such, it represents a Community-wide review, but it is not a formally coordinated Community product.

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USSR/Eastern Europe

The Soviets recently have successfully weathered two successions in Eastern Europe and a new round of unrest in Poland, but party leader Gorbachev and the reforms he has undertaken continue to have a profoundly unsettling influence in Eastern Europe. The potential for Soviet missteps remains high.

There is Community agreement that long-term Soviet objectives in the region remain unchanged; the Soviets seek bloc cohesion and stability, support for Moscow's foreign policies, Communist dominance, increased defense spending, and greater economic integration. Under Gorbachev, however, Soviet management practices have changed. East European leaders have more room for maneuver, and Moscow is not pressing for slavish imitation of Soviet reforms. The threshold for Soviet military intervention may be higher under Gorbachev than under Brezhnev and his two immediate successors. There is disagreement over whether the "Brezhnev Doctrine" has been abandoned. DIA and CIA believe the new rhetoric is primarily for propaganda purposes while State/INR and the Assistant NIO for USSR are less dismissive of the rhetorical, agreeing that Moscow will protect its interests but arguing that the Soviets are redefining those interests.

Panama

General Noriega has moved to cement and extend his influence in Panama and probably calculates that he can remain in power even if he decides to renege any formal accord with the United States. Most of the Community believes that Noriega continues actively to lay the groundwork for a remaining a major player in Panama. He has: created a new Strategic Military Council composed of loyal troops to replace or influence the less politically reliable General Staff; promoted loyalists to key positions; shaken up the Cabinet to improve control of the civilian bureaucracy; and moved to exacerbate divisions among opponents of the regime. The most likely leader of a coup--former Ambassador to Israel and Lt. Col. Herrera Hassan--has little chance of stirring action against Noriega.

Over the longer-term, the NIO for Warning believes Noriega could chip away at US interests in Panama, including rights to the Canal. He may want to punish the US for its attacks on him personally and what he perceives as serious damage to the Panamanian economy. We anticipate no direct challenge to the main provisions of the 1977 Treaties, but Noriega knows how to harass US personnel and interfere with US diplomatic, military, and commercial activities. He may decide to try to "slice the salami" in small pieces to enhance Panamanian administrative claims to the Canal as 1999 approaches. Still a comparatively young man, Noriega could, if elected President, remain a thorn in the side of the US for many years to come.

Guatemala

The failure of the coup in May against President Cerezo did little to dampen the zeal of anti-regime forces and another coup attempt is likely. Cerezo has bought some time by taking steps to meet some of the military's concerns including breaking off plans to meet with insurgents and promising more rifles for the army. He also may go easy on coup plotters by pardoning them. However, Cerezo has a history of returning to original policies and has angered the right by his decision to close a right-wing television station. Further, his ruling party is split and he has failed to address corruption charges or close the Cuban and Soviet press offices. Analysts are divided over the timing of another coup attempt. Some believe another is likely within 90 days while others think Cerezo's moves have bought him as much as six to nine months.

Libya/Benin

Libyan activity in Benin has increased again and Colonel Qadhafi's agents probably will resume using Benin to carry out subversive and terrorist operations in Africa. President Kerekou has rescinded restrictions on Libyans in Benin; the head of the Libyan Peoples Bureau has returned, a Libyan front company has reopened, Libyan Airways is beginning service, and Chadian rebels are transiting Benin for military training in Libya. Analysts conclude that Tripoli virtually "owns" anyone of importance in the Benin government.

USSR/Cape Verde

Soviet activity is on the rise in Cape Verde and Moscow probably is pressing for a new fishing agreement. If the Soviets also renew pressure for military access, the Praia government may eventually give in. Signs of the greater Soviet presence are everywhere. The embassy appears to be the Soviets' largest in Africa. Soviets are heavily involved in harbor rehabilitation and they use the Praia airport to rotate fishing fleet crews. State/INR concludes that Cape Verde is up for grabs; it will deal with anyone who will provide assistance. The Soviets may want to use Cape Verde for ocean reconnaissance by TU-95 aircraft.

2. Trend Commentary:

Poland

In the wake of recent strikes, the Community met to assess events and discuss the outlook for Poland over the next few months. The following is the NIO/Europe's "sense of the Community" report on that meeting. Labor unrest will continue over economic issues but unrest is unlikely to escalate into a nationwide movement. The regime will crush unrest if it shows signs of spreading nationwide. The impasse in Polish society has deepened and each of the country's major institutions--the regime, Solidarity, the Church, the

official unions, and the Sejm--has been divided by recent unrest. Prospects for economic recovery, social dialogue, and national reconciliation have been set back. Although the resolution of the Gdansk strike gives the regime the opportunity to negotiate from a position of relative strength, there is no sign that it wants serious social dialogue.

Events in Poland will engender government caution elsewhere in Eastern Europe, but are not likely to spur workers to action. The Polish events were not of Gorbachev's making and are not related to his reform program. The unrest is not likely to alter his approach to Eastern Europe, much less his domestic strategy.

The basic elements of the Polish government's program are unaltered and Poland's evolution depends basically on internal developments. We should be wary of concluding that US leverage has increased. At best, the US can continue at the margins to play a role in promoting movement toward economic reform and internal liberalization.

Hungary

Community analysts met recently to discuss the outlook for Hungary through the rest of 1988; following is a "sense of the Community" report of that meeting. The new Hungarian leadership rode to power on a pledge to effect major changes in economic and political structures that had long been blocked by the ousted Kadar regime. It is, however, burdened by an enormous debt burden that makes economic recovery doubtful in the near term. It also faces high popular expectations for rapid change. To implement needed austerity measures, the new leadership must win popular support, or at least acquiescence, through a credible reform strategy and political concessions. The likelihood of both radical reform and major unrest will increase.

The wholesale leadership changes revealed the depth of frustration and dissatisfaction among party rank-and-file after years of drift and erosion of the Party's role under Kadar. While new leader Grosz appears forceful, the new leadership as a whole is likely to be weak and divided for the next few months and change probably will be evolutionary until it sorts itself out. The key to the near term will be the leadership's ability implement effective reform while containing rising public expectations for political change. Over the longer term, the scope of conceivable change has expanded considerably. Other East Europeans will be watching how the Hungarians handle issues like plant closings and layoffs for a model of how they can handle similar problems. The Hungarian succession may also embolden the rank-and-file in other East European parties to exert pressure from below for change. Implementation of major reforms would magnify the pressures already created by Gorbachev; reformers would become more assertive even as conservative regimes took repressive countermeasures. Western governments will be caught between a desire to encourage liberalizing reform and the reality of Hungary's poor economic situation.

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India/Pakistan

Tensions between India and Pakistan continue and clashes over the Siachen Glacier are likely this summer, but the Community does not expect a major confrontation soon. The Pakistanis probably will seek to avenge their defeat on the glacier last summer with an assault on Indian positions in June or July but the battle will stay localized. Bilateral tensions also include allegations by Prime Minister Gandhi of unspecified "Sikh training camps" in Pakistan; Sikh-related killings in India have doubled in each of the last two years. In addition, both countries are developing missiles and India will almost certainly accelerate its efforts if Pakistan fields a missile.

The Saudis' CSS-2 Acquisition

Saudi Arabia continues its CSS-2 deployment program. [REDACTED]

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Senegal

Urban unrest in Senegal appears to have peaked, now that opposition leader Wade is out of jail, but student demonstrations and protests over economic grievances probably will continue.

3. The NIO/Warning notes these additional areas of warning concern:

Nicaragua

The Sandinistas are making preparations to attack the Resistance militarily but are likely to hold off in the near term to avoid renewal of US lethal aid to the rebels. They undoubtedly will continue to try to isolate the Resistance politically, encourage divisions in the Resistance Directorate, and maintain the diplomatic high road of appearing to want a peaceful solution. Nevertheless, they apparently are making plans for major military strikes aimed at defeating the Resistance on the battlefield.

The regime is improving its military position. Managua has been increasing its military strength during the ceasefire period [REDACTED]

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[REDACTED] It already has strong positions opposite major Resistance enclaves in Honduras.

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[REDACTED] President Ortega plans to strike within 30 days of a failure of peace talks--perhaps by mid-July--and intends a final defeat of the Resistance by December. [REDACTED]

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Pakistan/US

United States relations with Pakistan soon could be aggravated by one or more of a series of thorny issues. President Zia may be unwilling to meet Congressional demands for modification of Zia's behavior--including a disdain for democracy as shown by his summary dissolution of parliament last month--that could affect the course of negotiations on US weapons sale, particularly the E-3 airborne warning and control system, and US economic assistance.

Zia faces difficult domestic political troubles and major external dangers that will influence his decisions. He may renege on promises to restore the course of democratization following the dissolution of parliament last month. The growing perception of a threat from India probably will keep Zia committed to acquiring Chinese M-9 and possibly CSS-2 missiles, domestic ballistic missile development, and the acquisition of nuclear weapons. Moreover, Zia has his own interests in a "solution" to the situation in Afghanistan that could lead to disputes with Washington. Mounting economic problems and the need for aid will tend to mute his opposition to US concerns, but he will be sensitive to criticism at home that he is taking orders from the Americans. With the unifying mutual interest of a Soviet withdrawal receding into history, bilateral political relations are likely to remain strained for some time to come. Over the longer-term, bilateral tension and perceived US moral imperialism could lead Zia and his successors to follow Saudi Arabia in adopting positions more independent of the US and perhaps yet closer to China.

North Korea

The construction of four SA-5 firing positions at Pyongsan, just north of the Demilitarized Zone, poses an increased threat to [redacted] US and South Korean military aircraft, and commercial airliners using the international airport at Seoul.

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North Korea's immediate objective probably is to create a sense of insecurity about the Seoul Government's ability to protect athletes and visitors traveling to the Olympics. P'yongyang consistently has indicated that it intends to find ways to disrupt the games. North Korea probably expects that word of the construction will become public soon and that it will aid its propaganda campaign directed at undermining confidence in South Korea's efforts to provide security for the Olympics.

On a broader scale, P'yongyang is also intent on upgrading its air defenses to counter the steady US and South Korean modernization of their air forces in the South.

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South Korea

The most serious threat to Seoul's hopes for a trouble free, well attended Olympics in September may be rowdy radical students who can project an international image of instability in South Korea. Only a comparatively few radicals can accomplish a lot. US efforts to counter a possible North Korean threat--such as plans to station a carrier battle group off the Korean coast during the Games--could be used by radical leaders to incite the students to more violence. South Korean security forces can control demonstrators, but radicals probably will be able to cause some trouble during the Olympics, inflame anti-US sentiment, and ultimately serve the North Korean regime's objective of discrediting the Seoul-hosted Games.

Libya/Chad

Libyan leader Qadhafi's abrupt recognition of the Habre regime in Chad has bought Tripoli more time to prepare covertly Chadian rebels to renew hostilities in the disputed Aozou strip--possibly before the end of summer. Qadhafi's diplomatic maneuver follows a late May failure by the Organization of African Unity to resolve claims by both countries to the mineral-rich Aozou area, which Libya has held since 1973. Habre does not plan to re-initiate hostilities for now, but has reinforced his troops in the region. He has bounced the ball back to Qadhafi--whom he deeply distrusts--with a bid to resume diplomatic relations and a guarded offer to talk. Habre hopes that over time Qadhafi will tip his hand on his true intentions to African and world leaders.

Libya wishes to expand the buffer between its positions in the Aozou and thousands of Chadian troops within a range of about 75 miles to the south. Because Tripoli's own forces in the area suffer major morale problems and because previous losses in Chad have caused public criticism, Qadhafi is unlikely to risk Libyan casualties in a major offensive soon. Instead, he is attempting to rebuild and supply a Chadian rebel force that could challenge Habre's claim to control of the country. Since early May, Libya has cooperated with rebel leader Goukouni to transport at least 200 Chadian rebels to Tripoli from Nigeria and other West African countries through Benin.

Libya/Africa

In recent months Libyan leader Qadhafi has initiated a policy of cooperative diplomacy to mask an infrastructure that supports terrorism and subversion throughout Africa. He has used a variety of established

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mechanisms--commercial firms, People's Bureaus (embassies), and cultural societies--to support terrorism against his own dissidents abroad and subversion aimed at other African leaders in order to influence their policies vis-a-vis Libya.

- o Front trading companies and Libya-African Airlines provide logistical support to terrorist operations by transporting weapons and explosives to subversive elements in west and central Africa.

- o People's Bureaus in Accra, Cotonou, Kampala, and Lagos give direct support to subversive elements in those countries. Kenya recently closed the People's Bureau in Nairobi as a result of its unacceptable activities.

- o Student recruiting, often under the false guise of academic or religious training, brings thousands of students from various African countries to Libya for paramilitary training. In particular, anti-Chadian rebel groups benefit from this scheme.

- o The World Islamic Call Society and the Green Book Study Society, "missionary" groups located throughout Africa with a heavy concentration in Benin, The Gambia, and Ghana, provide a cover for Libyan terrorist support and recruitment.

To protect and provide more venues for his undercover operations, Qadhafi has recently made diplomatic overtures to Liberia, Nigeria, Tunisia, and Chad, offering in some cases to renew diplomatic relations and in other cases to cooperate on political, economic and educational efforts. In order to improve communication between Libya and its neighbors, Qadhafi has begun a program of liberalization on the home front, including renewed public appeals for dissidents to return to Tripoli. He may temporarily curtail operations against dissidents abroad while attempting to woo them home. But given Libya's entrenched infrastructure throughout Africa, Qadhafi will continue his pursuit of insurgency and terrorism in the region.

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Saudi Arabia/Iran

The annual Hajj pilgrimage of Moslems to Mecca and other holy sites this July already is straining Saudi/Iranian relations and will give Tehran additional opportunities to strike at Saudi Arabia, including sabotage its oil facilities. Tehran appears already to be gearing up for a major test of Saudi security. It intends both to punish the Saudis for their support for Iraq and to gain revenge for the deaths of several hundred Iranian pilgrims in Mecca last year when security forces fired on rampaging demonstrators. Iran has begun to line up sympathetic non-Iranian Shias and reportedly had intended to send 150,000 Iranians--undoubtedly including many Revolutionary Guards--to Saudi Arabia, despite the Saudi intent to limit the number of Iranians to less than 50,000; it announced in mid-June that it will deliver no Iranians.

Even if it sends no pilgrims, we expect Tehran to try to foment trouble in the predominantly Shia Eastern Province, challenge the legitimacy of the Saudi royal family, attack more economic targets, spread propaganda among other pilgrims, and generally disrupt the Hajj. Riyadh probably will have trouble controlling the crowds even with the assistance of security forces from other Islamic states and will blame Tehran for disturbances. Attacks on the sizable American community would make good on Iranian threats to punish the US for its "support" of Iraq; they also would be embarrassing for the Saudis and thus desirable for Iran. In any case, bilateral ties are likely to be strained still further.

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Peru

President Garcia's erratic governing style could trigger a military coup before the end of the year if he continues to support measures that are unpopular with conservative military leaders. US business interests could be threatened during the unrest accompanying a coup, or if Garcia decides to counter broad dissatisfaction with the crumbling economy by nationalizing US-owned companies.

[redacted] Tensions between the military and government long have simmered because of Garcia's lack of support for the Army's counterinsurgency campaign, the poor level of military armaments and supplies, favoritism shown by the President to the ruling party's paramilitary, and his leftist international policies. Officers are likely to resume plotting if Garcia does not change his policies towards the armed forces. Garcia could also cause coup planning to resume--in attempting to appeal to the beleaguered poor and middle classes--if he impulsively presses for any of the following measures:

- o Constitutional changes, which would allow him to extend his term of office by at least two years beyond 1990. In late April, Garcia shocked armed forces officers by suggesting they support him in altering the constitution to allow him more time to complete his failing economic, anti-drug, and counterinsurgent programs.

- o Acceleration of nationalization of major industries. To appeal to the poor, Garcia in the past has nationalized several private banks and off-shore oil facilities. He has also threatened to take over more private-sector firms to increase government revenues. Such a move would affect US-owned companies in the petroleum, copper, and pharmaceutical industries. Already, Peru's economic outlook is deteriorating because foreign oil companies are reluctant to invest because of the current political climate.

- o Turning foreign policy sharply leftward. New commercial and military agreements with the USSR and Cuba would further increase those countries' influence in Peru.

[redacted] He has also expressed interest in military assistance programs with Cuba and the East bloc, which would open Peru further to the presence of military advisers from these countries.

Military officers do not relish the prospect of staging a take-over because of Peru's deep-seated ills and their loyalty to the constitution. Furthermore, a recent Ministry of Interior investigation into charges that the Army has massacred civilians in its counterinsurgency campaign has cast broad public suspicion on the military and lessened prospects for public support for a military take-over. Army officers would almost certainly resume planning to

overthrow Garcia, however, if the President should decide to use the massacre charges to crack down on the military.

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